

PSJ2 Exh 151

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Memorandum to
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From
McKinsey & Company

August 8th, 2013

Identifying granular growth opportunities for OxyContin: Addendum to July 18th and August 5th updates

This addendum highlights two additional findings since our July 18th and August 5th updates and specific actions we believe Purdue should take to begin to increase sales.

1. Prescriber Targeting

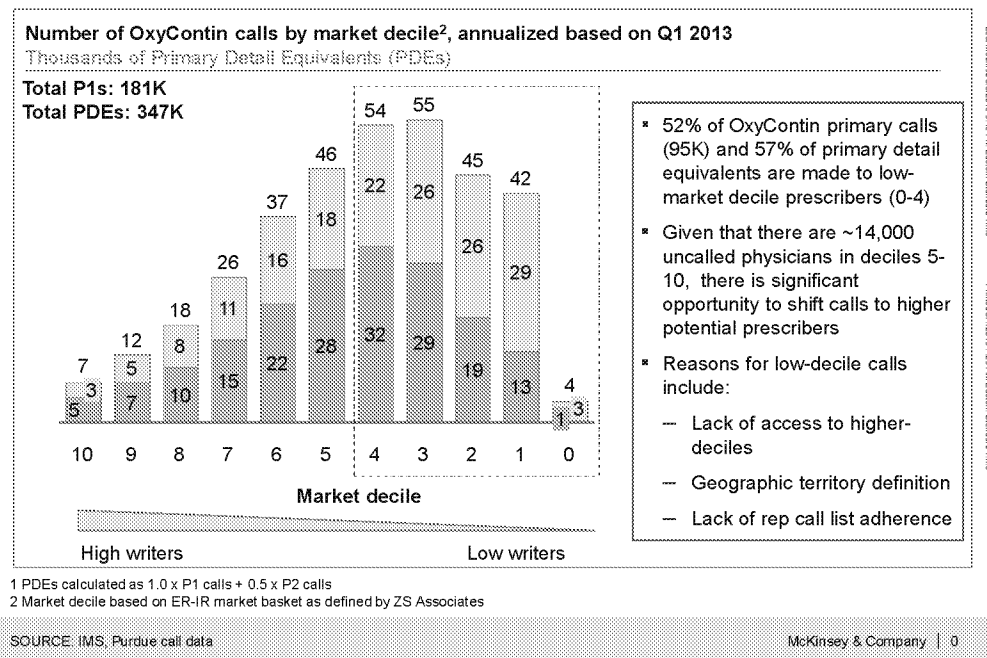
Our refined analyses confirm significant opportunity to improve sales through better targeting. We believe the upside is >\$100 million in annual sales.

Today Purdue spends as much effort detailing the lesser value prescribers (decile 0-4) as it does on the higher value prescribers (decile 5-10). To put this in perspective, the average prescriber in decile 5-10 writes 25 times as many OxyContin scripts as a prescriber in decile 0-4. In Q1 2013 the majority (52%) of OxyContin primary calls were made to decile 0-4 prescribers. Including the secondary calls, 57% of the primary detail equivalents (PDEs) were made to decile 0-4 prescribers. Best practice in the industry is over 80% of effort on higher value prescribers. (Exhibit 1)

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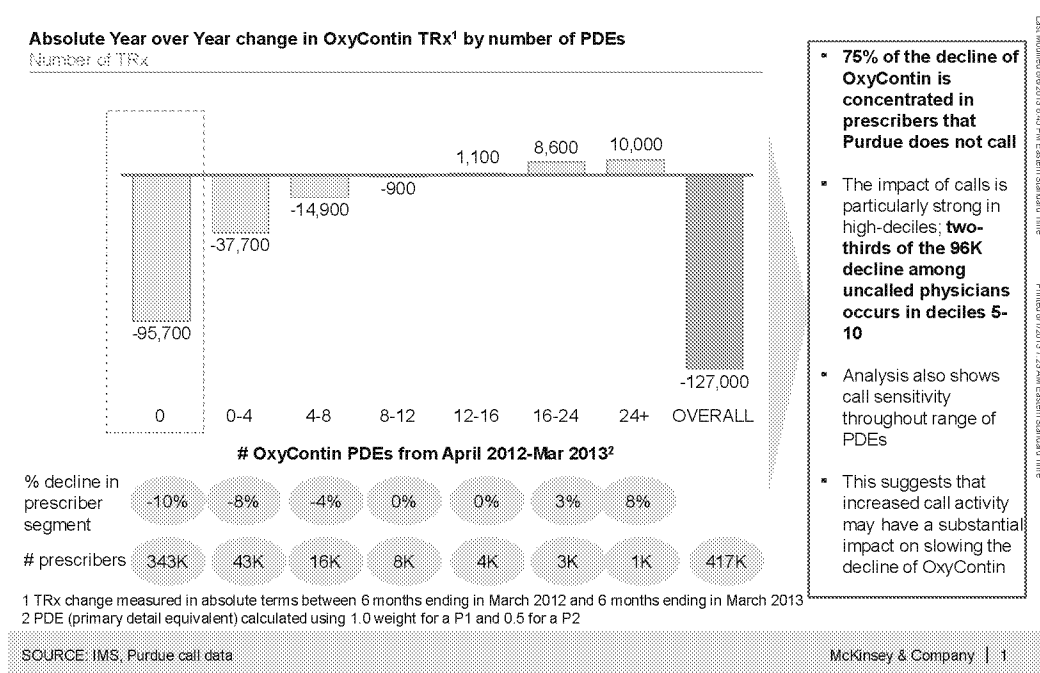
Exhibit 1: OxyContin calls by market decile

Secondary details (PDE equiv)¹
Primary details



Furthermore, 75% of the decline in OxyContin sales comes from prescribers that Purdue is not calling upon. Two thirds of this decline is from prescribers in deciles 5-10. (Exhibit 2) In addition, the field sales force primary OxyContin calls are running at 65% of goal.

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Exhibit 2: OxyContin TRx change at different levels of call activity

Collectively these findings show significant opportunity to improve targeting and also emphasize the upside from improvement as OxyContin's responsiveness to calls appears significant.

2. Retail access

Access to OxyContin for some patients has become quite challenging in specific local markets. This is due to a combination of factors including: regulations, DEA initiatives, PROP, wholesaler initiatives and local pharmacist perceptions.

There is direct evidence of this reduced access through patient calls to Purdue's Medical Information line which have recorded a 300% increase in instances of patients reporting difficulty filling opioid prescriptions, often needing to travel to multiple pharmacies in an attempt to fill their prescription.

There are reports of wholesalers stopping shipments entirely to an increasing number of pharmacies, causing temporary supply disruptions. Although, it appears that pharmacies are able to secure alternative distributors.

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Many wholesalers are also imposing hard quantity limits on orders based on prior purchase levels. This restricts access for new and existing patients, especially in situations when an access challenge arises in a local pharmacy, the wholesaler quantity limits restrict the ability of other local pharmacies to pick up the displaced patients.

While the wholesaler issues are quite visible and real, we believe the daily decisions being made at local pharmacies, while less publicly visible, are in fact creating far greater access issues.

Walgreens, in particular, is having material impact on patients. In April, Walgreens rolled out national opioid dispensing guidelines. These guidelines are quite extensive and include ‘flags’ for new patients and dose limits which can clearly impact appropriate patient access. (Exhibit 3)

Exhibit 3: Guidelines established by major pharmacy chains for opioid dispensing

Pharmacy chains are implementing guidelines for which patients can fill opioid prescriptions, increasing pharmacists' risk of filling opioid prescriptions...

Common mandatory requirements	<ul style="list-style-type: none"> Government ID No previous failed attempt to fill the prescription at another pharmacy belonging to same chain Clear Prescription Drug Monitoring Program (PDMP) check, in states where available
Additional flags	<ul style="list-style-type: none"> Has not previously filled a prescription for the same medicine and dosage at same pharmacy Quantity is 120 units or more Patient on medication for 6 months or more Lives far from the pharmacy Prescription not filled on time Paid through cash/ credit card rather than insurance

... moreover, pharmacists report **increased work and hassle associated with filling opioid prescriptions**

- "We kind of discourage [the opioid business]... **it's more headaches than it's worth** for the low profits [and] if you give one patient one prescription [for an opioid], they bring their friends" – *Clinical coordinator at Publix (FL)*
- "Stress load is high- they aren't insuring techs [and] it used to take 10-15 [minutes] to fill a prescription, now it takes a lot longer... Pharmacy also not providing enough support to fill these prescriptions... **80% of the time, they just refuse patients.**" – *Clinical coordinator at Publix (FL)*
- "With budget cuts and staffing cuts – we don't have time to handle everything... **it's easier to turn away patients... my personal turn away rate for opioids is about 5%**" – *Former Pharmacy Manager at Walgreens (KY)*

Printed 9/1/2019 7:23 AM Eastern Standard Time
Last Modified 8/29/2019 5:55 PM Eastern Standard Time

SOURCE: Purdue, Pharmacy expert interviews

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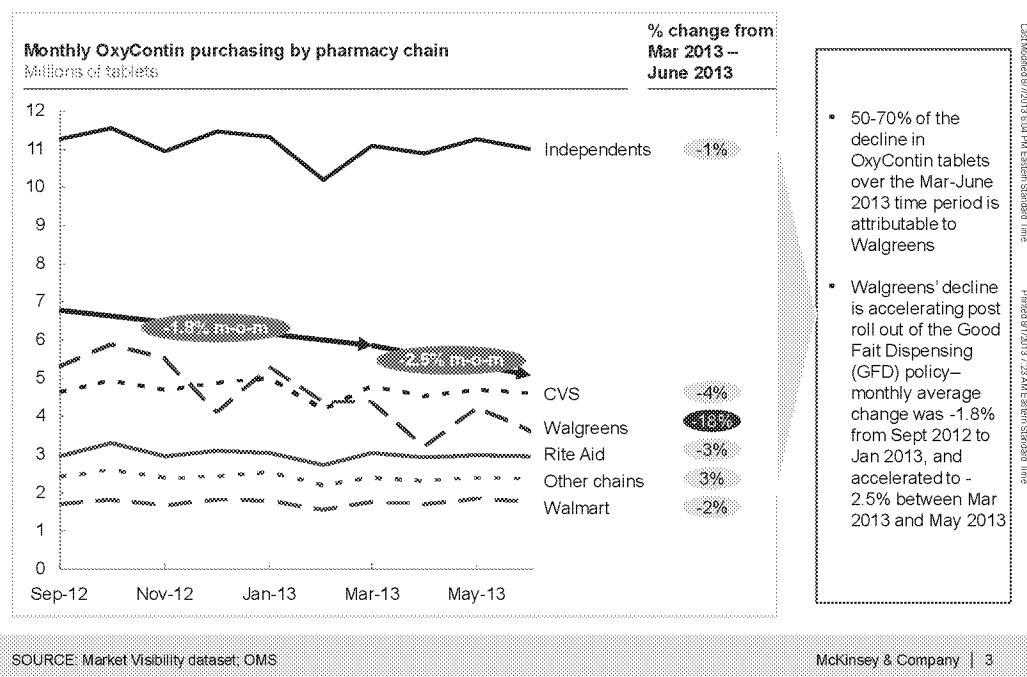
Separately, as part of their agreement with the DEA, Walgreens eliminated controlled substances from their bonus calculations for pharmacists. Thus individual pharmacists effectively lose money every time they accept the work of fulfilling an opioid prescription. Thus there is a strong dis-incentive for pharmacists to dedicate the extra time needed to maintain patient access to opioids, even independent of the chain's national guidelines on opioid dispensing.

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Deep examination of Purdue's available pharmacy purchasing data shows that Walgreens has reduced its units by 18% in just the last three months. In March – June, the Walgreens reduction alone can account for 50-70% of the total OxyContin decline in units. (Exhibit 4)

Exhibit 4: OxyContin purchasing by pharmacy chain

PRELIMINARY - IN VALIDATION



We have examined multiple zip codes where Walgreens is a major supplier, and the other local pharmacies have not seen offsetting increases in purchases – thus it appears that many of these patients are either going untreated or being forced to find alternatives.

Further, the Walgreens data also shows a significant impact on higher OxyContin dosages. Among Walgreen stores that stock OxyContin 20mg, in the last three months there has been a 21% reduction in the number of stores also purchasing the 80mg. It is also important to note that Walgreen's reduction in the 80mg far exceeds the national trend. Their share of national purchases of the 80mg has fallen by nearly 20%. Thus Walgreens is not simply reflecting lower demand, but apparently taking independent action to further reduce 80mg purchasing.

While Walgreens is currently having the most dramatic impact, there is reason to believe that many of the chains either have implemented (e.g., CVS in 2012) or are considering similar policies. Thus the pharmacy access issue is both urgent and broad.

The magnitude of today's patient access issues underscores the need to: (1) take immediate actions to address issues at pharmacies (e.g., ensure appropriate senior level dialogue with Walgreens, increase patient advocacy efforts); and (2) accelerate exploration of potential

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innovative alternatives such as direct-to-patient mail order which was described in our prior memo.

3. Specific actions to begin to increase Purdue's sales¹

When combined with prior findings, the scale of change required in Purdue's sales force model is significant. Rather than addressing the pieces individually, we recommend you take actions to 'Turbocharge Purdue's Sales Engine' and optimize across all elements of the winning sales model – from targeting to territories to incentive compensation.

The rationale to for addressing Purdue's sales model holistically is strong. These findings demonstrate the breadth of issues and how they are inter-related. For example, despite the significant value in improving Purdue's targeting, the value cannot be captured unless the field achieves a higher level of adherence to Purdue's call plan.

While the behavioral and process changes described here are significant, and some incremental investments may be required (e.g., additional reps, Sales analytics capabilities), overall the financial investments are moderate relative to the upside sales potential.

Therefore, we recommend Purdue approve five actions immediately:

1. Create a senior leadership team to lead this effort (no more than three executives within and outside sales) and task them to develop a detailed workplan within 30 days.
2. Establish a revenue growth goal (e.g., \$150M incremental stretch goal by July 2014) and set monthly progress reviews with CEO and Board.
3. Shift Purdue's sales targeting from decile to workload (industry norm that more precisely defines the value of physicians)
4. Re-balance field effort dramatically toward OxyContin by increasing field force activity where needed and closely measuring changes in sales
5. Mandate field compliance with targets and align the incentive program to match OxyContin prioritization

Our experience with other pharmaceutical companies suggests that such a comprehensive Sales transformation program takes nine months, although positive impact will be seen within 2-3 months. It is critical that Purdue commits to addressing sales as an organizational journey, not an event. Success requires not only the analytic answer, but even more importantly winning the hearts and minds of the sales force and permanently changing how the company operates, from

¹ Recommended actions to address "retail access" will be included in our final report

HQ to the field. New capabilities will need to be learned and reinforced on a daily basis. The organizational mindset, behavior and culture will all need to evolve along with journey.

Purdue should start work immediately. Additional analytics are needed (e.g., workload and Champions need to be identified). As mentioned above, a detailed workplan needs to be developed within 30 days. While this effort would be focused on OxyContin, the approach and capabilities built would likely have positive spillover to Butrans and the rest of the portfolio.

While it is challenging to quantify the exact impact of such changes in a dynamic marketplace, we are confident that the value at stake is significant – hundreds of millions, not tens of millions. Analysis done during the prior sales force alignment and our own retrospective analysis both showed over \$200M of potential opportunity in a single year, even more in cumulative terms. While this did not take into account the negative landscape drivers such as pharmacy access challenges, it also did not consider the positive drivers such as the recent label change. The substantial size of the opportunity is reassurance that the significant effort required will be well rewarded.

Closing

We emphasized this ‘Sales Engine’ recommendation because we believe it is fundamental to Purdue’s near term and longer term success. We strongly believe that a comprehensive approach is the right answer. Success will require real commitment from Purdue leadership and also significant effort from the organization. This program requires substantial capability building at HQ and in the field. The program office described above will require support of an internal cross-functional working group, likely with executive committee engagement, possibly as co-chairs. Our experience is that these kinds of sales transformations are not easy and require real work but the end result is quite rewarding, both for individuals and for the organization.

Our experience makes clear that one fundamental ‘must have’ for execution success is strong leadership alignment upfront.

Therefore our recommendation is that Purdue makes a clear go-no go decision to ‘Turbocharge the Sales Engine’.

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